

# Inspector General

## United States

## Department *of* Defense



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## **Acronyms**

ASA	Annual Statement of Assurance
DFAS	Defense Finance and Accounting Service
FFMIA	Federal Financial Management Improvement Act
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act
GAO	Government Accountability Office
IT	Information Technology
OMB	Office of Management and Budget
USMC	United States Marine Corps



INSPECTOR GENERAL  
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February 19, 2008

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE  
(COMPTROLLER)/CHIEF FINANCIAL OFFICER  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE  
NAVAL INSPECTOR GENERAL

SUBJECT: Report on Defense Finance and Accounting Service Kansas City Federal Managers' Financial Integrity Act, Federal Financial Management Improvement Act, and Federal Information Security Management Act Reporting for FY 2005 (Report No. D-2008-053)

We are providing this report for review and comment. We considered comments from the Defense Finance and Accounting Service when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Defense Finance and Accounting Service comments were partially responsive. We request additional comments on Recommendations A.1., B.2., and C. Therefore, we request that the Director, Defense Finance and Accounting Service provide comments by March 19, 2008.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to [AudDFS@dodig.mil](mailto:AudDFS@dodig.mil). Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Questions should be directed to Edward A. Blair at (216) 706-0074 ext. 226 or Ms. Cecelia M. Ball at (816) 926-8501 ext. 222 (DSN 456-8501). The team members are listed inside the back cover. See Appendix B for the report distribution.

By direction of the Deputy Inspector General for Auditing:

*Patricia A. Marsh*  
Patricia A. Marsh, CPA  
Assistant Inspector General  
Defense Financial Auditing Service



# Department of Defense Office of Inspector General

**Report No. D-2008-053**

(Project No. D2005-D000FC-0294.000)

**February 19, 2008**

## **Defense Finance and Accounting Service Kansas City Federal Managers' Financial Integrity Act, Federal Financial Management Improvement Act, and Federal Information Security Management Act Reporting for FY 2005**

### **Executive Summary**

**Who Should Read This Report and Why?** Defense Finance and Accounting Service (DFAS) Headquarters, Cleveland, and Kansas City personnel responsible for the internal control program and Annual Statement of Assurance reporting; and Department of Navy and United States Marine Corps personnel responsible for financial management and reporting should read this report. This report contains recommendations that DFAS Kansas City should follow to ensure that effective internal controls are in place to assess and report on its Management Control Program. The United States Marine Corps relies on assurances made regarding the effectiveness of controls DFAS Kansas City uses to prepare the United States Marine Corps stand-alone financial statements. The United States Marine Corps financial statements are consolidated into the Department of Navy financial statements.

**Background.** This report provides an assessment of the reliability of the DFAS Kansas City FY 2005 Annual Statement of Assurance report on internal control required by the Federal Managers' Financial Integrity Act (FMFIA) and Federal Financial Management Improvement Act (FFMIA). In addition, this report provides an assessment of DFAS Federal Information Security Management Act (FISMA) reporting on its security program. DFAS Kansas City is responsible for reporting the United States Marine Corps financial statement data to the Department of the Navy. This report discusses how DFAS Kansas City implemented policies and procedures governing internal controls over financial data.

**Results.** DFAS Kansas City did not have adequate processes in place to determine whether material internal control weaknesses existed and were included in the FMFIA, FFMIA, and FISMA annual reports as required. Specifically, DFAS Kansas City did not have an adequate management control program (finding A), did not comply with financial management system control reporting requirements (finding B), and submitted incomplete information for Federal Information Security Management Act reporting (finding C). Without adequate processes in place, DFAS Kansas City and the United States Marine Corps cannot ensure an effective control environment for producing accurate and timely financial information. DFAS Kansas City must address these vulnerabilities as required by Federal and DoD criteria outlined in the report. See the Findings section of the report for the detailed recommendations.

### **Management Comments and Audit Response.**

The Director, DFAS Kansas City nonconcurred with all recommendations. He included in his comments that the Chief Information Officer, Defense Finance and Accounting Service also nonconcurred with the recommendations. Although the Director, DFAS

Kansas City nonconcurred, we identified some corrective actions that we consider responsive to the intent of the recommendations. These actions were responsive and further comments are not required. We revised and redirected other recommendations to the Director, DFAS because comments were not responsive.

We request that the Director, DFAS comment on the final report by March 19, 2008. See the Findings section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

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## Background

The Defense Finance and Accounting Service (DFAS) Kansas City is responsible for reporting the United States Marine Corps (USMC) financial statement data to the Department of the Navy. This financial statement data is ultimately included in the DoD consolidated financial statements. USMC relies on DFAS Kansas City's assurances regarding the controls used to prepare the USMC financial reports and ultimately its financial statements. The DFAS Kansas City Accounting Business Line provides controls and functional management oversight of accounting services and processes used to generate the USMC financial statements. Established controls should reasonably ensure that assets are safeguarded. In addition, these controls should reasonably ensure that obligations, revenues, and expenditures are accounted for and properly recorded to produce reliable financial reports. These disciplined financial and management controls are essential in preventing potential fraud, waste, and abuse. DFAS Kansas City reports on its internal control structure in its Annual Statement of Assurance (ASA).

**Management Control Reporting.** All agency heads must evaluate and report annually to the President and Congress on their management controls and financial systems used to protect the integrity of Federal programs. This reporting is required by the:

- Federal Managers' Financial Integrity Act of 1982 (FMFIA),
- Federal Financial Management Improvement Act of 1996 (FFMIA), and
- Federal Information Security Management Act of 2002 (FISMA).

**FMFIA Reporting.** In 1982, Congress passed the FMFIA,<sup>1</sup> which requires agencies to develop cost-effective internal accounting and administrative controls. These controls are intended to help ensure that an agency's:

- obligations and costs are in compliance with applicable law;
- funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- revenues and expenditures applicable to agency operations are properly recorded and accounted for.

Section 2 of the FMFIA requires the head of each agency to evaluate annually the agency's internal control and prepare an ASA indicating the effectiveness of its internal control. The agency head must include in its ASA any identified material

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<sup>1</sup> The key provisions of FMFIA were codified in section 3512 (c) and (d), title 31, United States Code.

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weaknesses in internal control as well as plans and schedules for correcting those weaknesses.

Section 4 of the FMFIA requires that the head of each agency include a separate report on whether the agency's accounting system conforms to the principles, standards, and related requirements prescribed by the Comptroller General.

**FFMIA Reporting.** The FFMIA is intended to advance Federal financial management by ensuring that Federal financial management systems:

- can and do provide reliable, consistent disclosure of financial data;
- disclose financial data in a manner that is uniform across the Federal Government from year to year; and
- comply with applicable Federal accounting standards.

The FFMIA is intended to provide the basis for ongoing use of reliable financial information in program management and in oversight by the President, Congress, and the public. Even though there are separate reporting requirements for FFMIA, the FMFIA requires that the FFMIA information be included in Section 4 of the FMFIA ASA.

**FISMA Reporting.** FISMA provides the framework for securing the Federal Government's information technology including both unclassified and national security systems. These systems include financial and non-financial systems. All agencies must implement the requirements of FISMA and report annually to the Office of Management and Budget (OMB) and Congress on the effectiveness of their security programs based on OMB guidance and requirements. If the security programs do not fully comply with FISMA requirements, these weaknesses must be reported in the annual FMFIA ASA and FFMIA reports.

**OMB Guidance.** OMB Circular A-123, "Management's Responsibility for Internal Control," revised June 21, 1995,<sup>2</sup> provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, correcting, and reporting on internal control.

OMB issued "Revised Implementation Guidance for the Federal Financial Management Improvement Act," on January 4, 2001. This guidance lists the specific requirements of FFMIA, as well as factors to consider in reviewing systems for compliance. It also provides guidance to agency heads developing corrective action plans to bring an agency into compliance with FFMIA.

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<sup>2</sup> OMB Circular A-123 was revised December 21, 2004; the revision was not in effect until FY 2006, but agencies were encouraged to implement it in FY 2005. The revision changed terminology from "management controls" to "internal control" and added Appendix A to specifically address assessing, documenting, and reporting on the effectiveness of internal control over financial reporting. Appendix A was added to strengthen the previously identified internal control reporting requirements.

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In addition, OMB issued Memorandum M-05-15 “FY 2005 Reporting Instructions for the Federal Information Security Management Act and Agency Privacy Management,” on June 13, 2005. This memorandum provides instructions for agency reporting under FISMA. The agency’s FISMA information is submitted to OMB.

Ultimately, OMB uses the information to:

- help evaluate agency-specific and Government-wide security performance,
- develop its annual security report to Congress,
- assist in improving and maintaining adequate agency security performance, and
- develop the E-Government Scorecard as part of the President’s Management Agenda.

**DoD Guidance.** DoD Instruction 5010.40, “Management Control Program Procedures,” August 28, 1996,<sup>3</sup> is the official document for DoD compliance with the FMFIA and OMB Circular A-123. DoD Instruction 5010.40 sets forth the responsibilities of the Under Secretary of Defense (Comptroller)/Chief Financial Officer with regard to implementing its program.

To satisfy the reporting requirement of FMFIA, DoD, using information from the DoD Components, prepares an ASA to report on whether the agency’s internal control is effective and achieving the intended objectives in accordance with established guidelines and standards. Compliance with FMFIA, FFMIA, and FISMA reporting should be used as an indicator that disciplined financial and management controls are in place. Effective management controls are intended to prevent potential fraud, waste, and abuse.

## Objectives

The overall audit objective was to assess the internal controls in place for reporting USMC financial and management data as related to accounting functions performed by DFAS Kansas City. Specifically, we determined whether the processes for completing FY 2005 reports required by the FMFIA, FFMIA, and FISMA were adequate. See Appendix A for a discussion of the scope and methodology.

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<sup>3</sup> Our review of internal controls was done under the auspices of DoD Directive 5010.38, “Management Control Program,” August 26, 1996, and DoD Instruction 5010.40, “Management Control Program Procedures,” August 28, 1996. DoD Instruction 5010.40, “Managers’ Internal Control Program,” was reissued on January 4, 2006. DoD Directive 5010.38 has been incorporated into DoD Instruction 5010.40 and DoD Directive 5010.38 has been cancelled.

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## A. Adequacy of Internal Control Program

DFAS Kansas City Accounting Business Line personnel did not adequately implement OMB, DoD, and DFAS guidance to comply with FMFIA requirements. Specifically, DFAS Kansas City Accounting Business Line personnel did not:

- complete required risk assessments for each functional area,
- properly identify management controls,
- determine whether all major functions were included in an assessable unit,<sup>4</sup> and
- provide control testing documentation supporting the FMFIA ASA report.

FMFIA requirements were not adequately implemented because DFAS Kansas City Accounting Business Line personnel did not receive appropriate oversight and training. In addition, they were not fully aware of their reporting responsibilities. As a result, the processes used did not meet FMFIA requirements, and DFAS Kansas City cannot ensure the reliability of its FMFIA ASA.

### Risk Assessments

DFAS Kansas City did not complete required risk assessments for each functional area. OMB Circular A-123, “Management Accountability and Control,” revised June 21, 1995; DoD Instruction 5010.40, “Management Control Program Procedures,” August 28, 1996; and DFAS Kansas City Standard Operating Procedures, “Federal Managers’ Financial Integrity Act, Section 2 Management Control Program,” July 28, 2004, require risk assessments to determine a functional area’s (assessable unit’s) vulnerability to waste, fraud, loss, abuse, mismanagement, and misappropriation. DFAS Kansas City Management Control Evaluations identified risks as error reports, incomplete cycles, and poor customer service. However, OMB A-123 states that risk assessments should address the potential effect on the financial statements and the five financial statement assertions of:

- existence
- completeness
- valuation

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<sup>4</sup> An assessable unit is a function or group of functions that require a manager to control resources within a business line or support service.

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- rights and obligations
- presentation and disclosure.

Without DFAS Kansas City identifying areas of risk, they cannot design or institute controls to minimize that risk. DFAS Kansas City personnel were not properly trained and were unaware of the requirements. DFAS Kansas City provided FMFIA reporting requirements training in April 2006 to DFAS Kansas City personnel. In addition, in September 2006, the Office of Under Secretary Defense (Comptroller)/Chief Financial Officer provided training on OMB Circular No. A-123, Appendix A. However, this training occurred after the 2006 ASA was issued, and the training did not incorporate all requirements for FMFIA ASA reporting. The training only addressed the financial reporting requirements, not the entire Management Control Program. We reviewed the FY 2006 DFAS Kansas City ASA and supporting information. We determined DFAS Kansas City did not implement significant changes to its risk assessment processes for FY 2006.

## **Internal Controls**

DFAS Kansas City personnel did not properly identify internal controls because DFAS Kansas City identified performance measures in its Management Control Evaluations. OMB Circular A-123 defines internal controls as the organization, policies, and procedures used to reasonably ensure that:

- resources are used consistent with the agency mission;
- programs and resources are protected from waste, fraud, and mismanagement; and
- reliable and timely information is obtained, maintained, reported, and used for decision making.

DFAS Kansas City did not define their internal controls as required, but instead identified performance measures as internal controls. For example, Field Accounting personnel stated that one of their controls was to use desktop procedures and journal vouchers to ensure timely preparation and delivery of the monthly trial balance to Departmental Accounting. The reported internal controls did not indicate how those controls ensured the accuracy and reliability of financial information, only that the trial balances were delivered timely. Upon subsequent review of the FY 2006 DFAS Kansas City ASA and supporting information, we determined that DFAS Kansas City did not implement significant changes to identify applicable Managers' Internal Controls.

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## Assessable Units

DFAS Kansas City Accounting Business Line personnel did not determine whether all major functions were included in an assessable unit. DFAS Kansas City standard operating procedures require that flowcharts be completed for major functions and processes to identify internal controls and their locations. All major functions and activities must be included in one or more assessable units. Assessable units should be linked to specific processes identified in the flowcharts.

DFAS Kansas City Accounting Business Line personnel were unable to provide flowcharts or other documentation to identify internal controls and where the controls reside in DFAS processes as required by DFAS regulations. Because DFAS Kansas City could not provide this documentation and DFAS Kansas City personnel were unclear as to their duties in regards to FMFIA, we have no assurance that all major functions were included in an assessable unit. Upon subsequent review of the FY 2006 DFAS Kansas City ASA and supporting information, we determined that DFAS Kansas City did not implement significant changes to ensure that all major functions were included in an assessable unit.

## Control Testing Documentation

DFAS Kansas City did not provide control testing documentation supporting its FMFIA ASA. OMB Circular A-123 requires that documentation for internal controls and other significant events must be clear and readily available for examination. In addition, DoD Instruction 5010.40 and DFAS Kansas City standard operating procedures require that appropriate documentation be maintained. Specifically, DFAS Kansas City standard operating procedures require that a file be maintained for supporting documentation and work papers associated with each Management Control Evaluation completed. Management Control Evaluations are used to document the testing of these internal controls. We requested internal control documentation supporting DFAS Kansas City Management Control Evaluations. DFAS Kansas City could not provide the testing documentation as required because they were not fully aware of their reporting responsibilities. As a result, we could not verify the adequacy of the Manager's Annual Assessable Unit Certification Statement. Upon our subsequent review of the FY 2006 DFAS Kansas City ASA and supporting information, DFAS Kansas City did not implement significant changes to maintain testing documentation supporting the ASA report.

## Conclusion

The Internal Control Program processes reviewed did not provide adequate information to ensure accurate reporting for compliance with FMFIA. DFAS Kansas City personnel did not understand their duties or follow prescribed

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procedures for FMFIA reporting. This was evidenced by the lack of risk assessments, improperly identified internal controls, the inability to determine whether all major functions were identified and included in an assessable unit, and the lack of control testing documentation. Until DFAS Kansas City follows the OMB, DoD, and DFAS policies and procedures, its FMFIA ASA cannot be relied upon to provide accurate information on the effectiveness of the internal control environment. The ASA becomes more critical as the USMC moves forward in obtaining an audit opinion on their stand-alone financial statements. In addition, as DFAS Kansas City is scheduled to close as part of the Base Realignment and Closure, the importance of identifying and ensuring that proper controls are in place becomes more critical as functions move to other DFAS locations. For FY 2006, DFAS Kansas City did not implement significant changes to its ASA preparation and reporting processes to assess risks, identify applicable Managers' Internal Controls, ensure all major functions were included in an assessable unit, and maintain testing documentation supporting the ASA report.

## **Management Comments on the Finding and Audit Response**

**Management Comments on Adequacy of Internal Control Program.** The Director, DFAS Kansas City stated that the processes reviewed provided adequate information to ensure accurate reporting for compliance with the FYs 2005 and 2006 ASAs. To improve the Section 2 reporting, DFAS Kansas City sought to strengthen the internal management control program by providing training on internal control activities and implementing a new Internal Control Unit in August 2006. DFAS Kansas City does not agree that its internal control processes could not identify risk and could not design or institute controls to minimize risks, but does agree that reporting and documentation could have been improved.

**Audit Response.** DFAS Kansas City did provide training in September 2006; however, the training did not apply to the time frame for this audit. The Director, DFAS Kansas City agreed that reporting and documentation could be improved; the available documentation did not provide evidence that DFAS Kansas City internal control processes identified risks, designed controls, and established controls to minimize risks.

## **Recommendations, Management Comments, and Audit Response**

**Revised and Redirected.** As a result of management comments, we revised and redirected Recommendation A.1 to the Director, DFAS to provide training regarding internal control to personnel responsible for current and future Marine Corps Accounting Business Line functions.

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**A.1. We recommend that the Director, Defense Finance and Accounting Service provide training to current and future Defense Finance and Accounting Service personnel responsible for the Marine Corps Accounting Business Line to ensure compliance with Office of Management and Budget and Defense Finance and Accounting Service policies. Specifically, the training should cover:**

- a. adequate risk assessments,**
- b. the associated internal controls to ensure reliability,**
- c. measurable assessable units, and**
- d. procedures for maintaining control testing documentation.**

**Management Comments.** The Director, DFAS Kansas City nonconcurred. The Director, DFAS Kansas City stated that risk assessments were completed as part of the Management Control Assessable Unit Matrix Evaluation Form, documented, and signed in accordance with DFAS 5010.38-R (May 2002). He added that the risk criteria cited by the DoD Office of the Inspector General applies to the organizations responsible for reporting Internal Controls over Financial Reporting (OMB A-123 Appendix A) not DFAS Kansas City. Regarding the internal controls to ensure reliability, the Director, DFAS Kansas City stated that their review of Assessable Unit Matrixes for FYs 2005 and 2006 found that 83% and 97% respectively did not use Performance Management Indicators as Key Controls. Performance Management Indicators were identified in addition to other controls in those Assessable Units noted by the DoD Office of the Inspector General. The Director, DFAS Kansas City agreed that managers are responsible for assessing whether all of their major functions are included in the respective assessable units. Although flowcharts were not required by the DFAS 5010.38-R (May 2002), DFAS Kansas City standard operating procedures did require flowcharts but personnel did not follow the procedures. The Director, DFAS Kansas City also agreed that DFAS Kansas City provided incomplete test documentation. He indicated that the documentation for FYs 2005 and 2006 was sufficient to support the FYs 2005 and 2006 ASAs. He also stated that DFAS Kansas City received positive feedback on its Fund Balance With Treasury processes from the Naval Audit Service in 2006 and the Standard Accounting, Budgeting, and Reporting System received Joint Financial Management Improvement Program certification by an independent firm (July 2005).

**Audit Response.** The Director, DFAS Kansas City comments were not responsive. He did not address the recommendation, but first focused on risk assessment criteria. Because DFAS Kansas City supports financial reporting for the USMC, it is important that DFAS provide training for personnel to ensure that OMB A-123 requirements are achieved. Second, we reviewed the support for DFAS Kansas City's percentages; we determined that 35 percent and 21 percent of the Assessable Unit matrixes for FYs 2005 and 2006, respectively, were Performance Management Indicators (performance measures). Performance measures do not ensure the accuracy and reliability of financial information. In

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addition, DFAS Kansas City analysis included Assessable Units that were not within the scope of this audit. Third, because the Director, DFAS Kansas City agreed that standard operating procedures requiring flowcharts were not followed, the recommendation should be implemented. Finally, the Director, DFAS Kansas City agreed DFAS Kansas City did not provide all ASA test documentation. In the absence of complete documentation, we could not verify that the FYs 2005 and 2006 ASAs were fully supported. As part of internal management control procedures, complete documentation must be maintained to support the ASA.

The Director, DFAS Kansas City indicated that the Naval Audit Service and Joint Financial Management Improvement Program Certification testing reports reinforced the DFAS Kansas City internal control environment to support an ASA. However, the results from this testing is only part of the entire internal control program and deficiencies were identified in both reports. The Naval Audit Service performed testing only on Fund Balance With Treasury. The Standard Accounting, Budgeting, and Reporting System did not pass testing for Joint Financial Management Improvement Program Certification, completed by an independent firm. The independent firm's report did not state that the Standard Accounting, Budgeting, and Reporting System is Joint Financial Management Improvement Program certified. According to the independent firm's report, the Standard Accounting, Budgeting, and Reporting System was tested for only 212 of the 331 Joint Financial Management Improvement Program requirements. Of the 212 Joint Financial Management Improvement Program requirements tested, the Standard Accounting, Budgeting, and Reporting System failed to meet 56 of those requirements, 23 of which were critical requirements for certification. Over one third, or 115, requirements for feeder systems should also be assessed. DFAS must test these feeder systems to know the extent of their financial systems compliance to FFMIA to support USMC financial reporting.

We request that the Director, DFAS review and comment on our recommendation to provide training to personnel responsible for current and future Marine Corps Accounting Business Line functions to ensure compliance with OMB and DFAS policies.

**A.2. We recommend the Director, DFAS Kansas City designate knowledgeable personnel to lead and monitor the Defense Finance and Accounting Service Kansas City Management Control Program.**

**Management Comments.** The Director, DFAS Kansas City nonconcurred. The Director, DFAS Kansas City stated that it has had, and continues to have, knowledgeable personnel to lead and monitor its Management Control Program. DFAS Kansas City established a three-person Management Control Team in August of 2006 to provide additional support and capabilities.

**Audit Response.** Although the Director DFAS Kansas City nonconcurred, the comments are responsive. The establishment of a Management Control Team indicates that corrective actions have been implemented that would meet the intent of our recommendation and potentially correct the deficiency. No further comments are requested.

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**A.3. We recommend the Director, DFAS Kansas City coordinate with Defense Finance and Accounting Service Cleveland to ensure that the Defense Finance and Accounting Service Kansas City's Management Control Program effectively transfers financial functions as a result of DoD's Base Realignment and Closure.**

**Management Comments.** The Director, DFAS Kansas City nonconcurred. He stated that the transfer of the Management Control Program to DFAS Cleveland is included in the DFAS Kansas City Base Realignment And Closure Closing Plan (August 2006). DFAS Kansas City has coordinated, and will continue to coordinate, with DFAS Cleveland. He added that this recommendation is out of scope for the time frame of the audit.

**Audit Response.** Although the Director, DFAS Kansas City nonconcurred, the comments indicate that corrective actions have been taken because the transfer of the Management Control Program is addressed in the DFAS Kansas City Base Realignment And Closure Closing Plan, August 2006. These comments are responsive and no further comments are requested.

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## **B. Financial Management System Controls Reporting**

DFAS Headquarters and DFAS Kansas City did not comply with the reporting requirements of FFMIA or FMFIA Section 4. They did not comply with reporting requirements because they relied on DoD to report financial management system weaknesses at the Department level. In addition, they relied on DoD to submit a remediation plan at the Department level for DoD-wide material weaknesses. As a result, DFAS Kansas City did not ensure that USMC financial management systems:

- were United States Standard General Ledger compliant,
- could provide accurate and timely information for decision-makers, and
- could produce consistent and reliable financial statements.

Without Component-level reporting, DoD cannot accurately report on its financial systems as a whole.

## **FFMIA and FMFIA Section 4 Reporting**

DFAS Headquarters and DFAS Kansas City did not comply with FFMIA and FMFIA ASA Section 4 reporting. DFAS Kansas City stated that the Business Transformation Agency<sup>5</sup> would report the financial management system weaknesses because these are DoD-wide material weaknesses. In addition, DFAS Headquarters and DFAS Kansas City relied on DoD to report system weaknesses and the associated remediation plan at the Department level. DoD created the Financial Improvement and Audit Readiness Plan to address all financial management improvement actions needed and to serve as the remediation plan for DoD financial management systems weaknesses.

FFMIA establishes a statutory requirement for agency heads to annually assess whether their:

- financial management systems comply with Federal financial management system requirements,

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<sup>5</sup> The Business Transformation Agency has been established to a) ensure consistency, consolidation, and coordination of DoD Enterprise-level business systems, and b) reduce redundancies in business systems and overhead costs.

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- financial management systems comply with applicable Federal accounting standards, and
- Standard General Ledger is at the transaction level.

Agencies that are not substantially compliant with these requirements must develop remediation plans to achieve compliance. In addition, financial system weaknesses identified under FFMIA should be reported in FMFIA Section 4 of the ASA.

DFAS Headquarters and DFAS Kansas City officials stated that financial management system weaknesses were reported at the Department level; therefore, they knew weaknesses existed with information systems. Yet, DFAS Headquarters and DFAS Kansas City did not report any weaknesses in their FFMIA or FMFIA ASA Section 4 reporting. The FY 2005 FMFIA ASA Section 4 reporting guidance did not address if the Components were responsible for reporting financial management system weaknesses. The FY 2006 guidance states that the Department will not require Components to identify or report Section 4 nonconformance weaknesses. DFAS Headquarters and DFAS Kansas City did not submit Component-level information for FFMIA reporting. It is unclear whether the financial management system weaknesses identified at the DoD level were applicable to the DFAS financial management systems. Whether DFAS can produce timely and reliable financial statements including USMC financial statement information is not readily evident.

## **Management Comments on the Finding and Audit Response**

### **Management Comments on Financial Management System Controls**

**Reporting.** The Director, DFAS Kansas City included in his comments a response from the Chief Information Officer, DFAS. In his response, the Chief Information Officer, DFAS stated that DFAS Kansas City was in compliance with the Office of the Under Secretary of Defense (Comptroller) guidelines. DFAS did not conduct FMFIA process and system compliance testing in FYs 2005 and 2006. He added that if DFAS had identified material weaknesses during its financial management reviews, DFAS would have reported the weaknesses in the agency's FMFIA Section 4 report. The Chief Information Officer, DFAS also explained the system testing processes applicable to FY 2007.

**Audit Response.** We agree the FY 2005 FMFIA ASA Section 4 reporting guidance did not address whether Components were responsible for reporting financial management system weaknesses. Also, we agree the FY 2006 guidance states that the Department will not require Components to identify or report Section 4 nonconformance weaknesses. However, without this information from DFAS, it is unclear whether the financial management system weaknesses identified at the DoD level were applicable to the DFAS financial management systems.

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## Recommendations, Management Comments, and Audit Response

**Redirected.** As a result of management comments, we redirected Recommendation B.2. to the Director, DFAS. DFAS should develop remediation plans to comply with FFMIA reporting.

**B.1. We recommend the Director, Defense Finance and Accounting Service Kansas City report the financial management systems material weaknesses in the Federal Financial Management Improvement Act report and Federal Managers' Financial Integrity Act Annual Statement of Assurance Section 4, if applicable, after implementing the recommendations from finding A.**

**Management Comments.** The Director, DFAS Kansas City included in his comments a response from the Chief Information Officer, DFAS. In his response, the Chief Information Officer, DFAS nonconcurred. However, he agreed there was no clear guidance for the FMFIA ASA, Section 4 submission in FYs 2005 and 2006. Therefore, DFAS did not submit any information for the FMFIA ASA Section 4. He stated that DFAS has established a working group to develop an FFMIA implementation plan for FY 2007 and, as demonstrated in their FY 2007 FMFIA ASA Section 4 report, DFAS has developed a more “systematic, repeatable, and standard” method for collecting and evaluating system compliance across the enterprise that mitigates future issues.

**Audit Response.** Although the Chief Information Officer, DFAS nonconcurred, the comments indicate that corrective actions have been taken in FY 2007 that would have corrected the deficiencies identified in our report. These comments are responsive and no further comments are requested.

**B.2. We recommend the Director, Defense Finance and Accounting Service develop a remediation plan for identified financial management system material weaknesses. If the DoD Financial Improvement and Audit Readiness Plan is used as the remediation plan, ensure that Defense Financial and Accounting Service Kansas City specific remediation actions are included in the Plan.**

**Management Comments.** The Director, DFAS Kansas City included in his comments a response from the Chief Information Officer, DFAS. In his response, the Chief Information Officer, DFAS nonconcurred. He stated that DFAS does not have a requirement to develop a remediation plan as there are no identified financial management system material weaknesses.

**Audit Response.** The Chief Information Officer, DFAS comments are not responsive. Based on inadequate testing for FYs 2005 and 2006 (finding A), financial management system material weaknesses would not have been identified. We do not agree that DFAS does not have financial management

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system material weaknesses. Joint Financial Management Improvement Program testing identified five high priority requirement failures. Identified material weaknesses would require DFAS to prepare a remediation plan to address the failures. We request that Director, DFAS review and comment on our recommendation to develop remediation plans to comply with FFMIA reporting.

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## C. FISMA Reporting

DFAS Headquarters submitted an incomplete FISMA Report. Specifically, DFAS Headquarters did not:

- use a complete list of systems,
- request network and training information from all DFAS sites, and
- maintain supporting documentation for the information submitted in the FISMA report.

FISMA reporting was incomplete because DFAS Headquarters did not have standard operating procedures in place for compiling and documenting FISMA reporting information. Because of the incomplete information and lack of documentation, DFAS Headquarters could not ensure they had all the necessary information to support FISMA requirements, and DFAS Kansas City could not ensure that systems, including USMC financial statement systems, were secure.

### Information System Inventory

DFAS Headquarters Chief Information Office used the IT Registry<sup>6</sup> to compile the FY 2005 FISMA systems information. The DFAS Headquarters Chief Information Office should have requested that each DFAS site submit systems inventory information for the systems they use. DoD Office of Inspector General and the Government Accountability Office (GAO) have reported that the IT Registry, which is intended to be an inventory of mission-critical and mission-essential systems, is unreliable and incomplete. Additionally, the Under Secretary of Defense (Comptroller)/Chief Financial Officer has not relied on the IT Registry to develop its list of systems to be reported to Congress but has issued separate data calls; therefore, DFAS Headquarters should have used other sources for FISMA reporting. The FY 2005 FISMA report is not reliable because incomplete and unreliable system inventory information was used to compile the report. DFAS did not have policies and procedures to explain which systems were supposed to be included in the FISMA report.

### Information Requested from DFAS Sites

The DFAS Headquarters Chief Information Office requested only training metrics from DFAS Kansas City. In contrast, the DFAS Headquarters Chief Information Office requested additional FISMA information pertaining to DFAS network

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<sup>6</sup> The IT Registry is a database of mission-critical and mission-essential information technology (IT) systems. This database is maintained by the DoD Chief Information Office.

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services from other DFAS sites. The DFAS Headquarters Chief Information Office did not request standard information at the Component level. Without this information, DFAS cannot ensure reliable system security reporting. Standard operating procedures would explain the compilation process at the Component level and ensure that standard information is gathered at the Component level.

## **Maintaining FISMA Documentation**

The DFAS Headquarters Chief Information Office did not maintain documentation to support the DFAS FISMA report. In addition, DFAS Kansas City did not maintain documentation to support the information it submitted to the DFAS Headquarters Chief Information Office for the DFAS FISMA report. DFAS did not have policies and procedures that required documentation to be maintained for audit purposes. In the absence of these policies and procedures, we were unable to determine how the DFAS FISMA reporting was completed and whether the reported system information was supported.

## **Conclusion**

Although DFAS Headquarters FY 2005 FISMA report did not identify any material weaknesses with their IT systems, the report was based on incomplete and unreliable data. DFAS Headquarters could not ensure that they had all the necessary information to support FISMA requirements ensuring security over all systems. This information should include those systems used to process USMC financial statement data. In addition, DFAS Headquarters and DFAS Kansas City did not maintain supporting documentation to provide an audit trail. Without this supporting documentation, DFAS Headquarters was unable to ensure that its FY 2005 FISMA report is accurate.

## **Management Comments on the Finding and Audit Response**

**Management Comments on FISMA Reporting.** The Director, DFAS Kansas City included in his comments a response from the Chief Information Officer, DFAS. The Chief Information Officer, DFAS disagreed with the finding. In his response, he stated that DFAS processes in place did provide an efficient means for providing training and collecting information to ensure accurate reporting compliance with the FYs 2005 and 2006 FISMA requirements.

**Audit Response.** DoD Office of Inspector General and the Government Accountability Office have reported that the IT Registry, which is intended to be an inventory of mission-critical and mission essential systems, is unreliable and incomplete. DFAS used the IT Registry to compile the FY 2005 FISMA systems information. Without a complete list of major systems, DFAS could not ensure it had all the necessary information to support FISMA requirements. In addition,

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the Chief Information Officer, DFAS did not request standard information at the Component level. Without this information, DFAS cannot ensure reliable system security reporting. DFAS Kansas City did not maintain documentation to support the information it submitted to the Chief Information Officer, DFAS for the DFAS FISMA report. Without this supporting documentation, DFAS was unable to ensure that its FY 2005 FISMA report was accurate.

## **Recommendations, Management Comments, and Audit Response**

**Clarified.** As a result of management comments, we clarified Recommendation C specifically to the Director, DFAS to ensure standard operating procedures are used to support the FISMA reporting process.

**C. We recommend Defense Finance and Accounting Service Headquarters document and implement standard operating procedures for the Federal Information Security Management Act reporting process. These standard operating procedures should include a consistent method for collecting information from Defense Financial and Accounting Service sites as well as provide a specific amount of time, a minimum of 2 years, for maintaining supporting documentation.**

**Management Comments.** The Director, DFAS Kansas City included in his comments a response from the Chief Information Officer, DFAS. In his response, the Chief Information Officer, DFAS nonconcurred. He stated that DFAS uses the prescribed DoD policies and procedures and only augments them as necessary to ensure accurate and reliable reporting. To that end, DFAS has standard operating procedures to ensure compliance with, and accurate reporting in accordance with, FISMA policies and procedures that are in compliance with statutory and regulatory guidelines. The Chief Information Officer, DFAS stated that DFAS revised the Chief Information Office policies published in FY 2007 which mandate compliance with FISMA, FFMIA, and FMFIA and directs that all DFAS information systems comply with established standards.

**Audit Response.** The Chief Information Officer, DFAS nonconcurred and the comments were not responsive. Although DFAS stated that it revised Chief Information Office policies in FY 2007, the Chief Information Officer did not adequately comment on identifying a complete list of systems from all available sources. In addition, the Chief Information Officer did not comment on maintaining the support for the information requested and received. We request that the Director, DFAS review and comment on our recommendation to document and implement standard operating procedures for the FISMA reporting process.

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## Appendix A. Scope and Methodology

We conducted this audit from November 2005 through July 2007 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We reviewed the Internal Control Program related to FMFIA, FFMIA, and FISMA reporting by DFAS Kansas City. We limited our scope to the DFAS Kansas City Accounting Business Line. Specifically, we reviewed the DFAS Kansas City assessable units, control objectives and techniques, and testing documentation. We interviewed DFAS Kansas City personnel to determine how the assessable units were identified, what control objectives and techniques were in place during FY 2005, and how these internal controls were tested. We also interviewed DFAS Headquarters personnel regarding FFMIA and FISMA information that supported the Annual Statement of Assurance. We reviewed the Manager's Annual Assessable Unit Certification Statements and the Management Control Evaluations that were completed for each assessable unit in support of the annual reporting requirements. We could not assess the adequacy of the Manager's Annual Assessable Unit Certifications as documentation did not exist to support the testing of the internal controls. We subsequently reviewed the FY 2006 DFAS Kansas City ASA and supporting information.

**Use of Computer-Processed Data.** We did not use computer-processed data to perform this audit.

**Government Accountability Office High-Risk Area.** The Government Accountability Office has identified several high-risk areas in DoD. This report provides coverage of the Financial Management high-risk area. GAO considered DoD Financial Management a high risk because DoD's financial management deficiencies represent the single largest obstacle to achieving an unqualified opinion on the U.S. Government's consolidated financial statements.

## Prior Coverage

No prior coverage has been conducted on FMFIA, FFMIA, and FISMA reporting on behalf of the USMC by DFAS Kansas City during the last 5 years. However, DFAS Internal Review performed a review of the DFAS' FMFIA Program from August 2005 through September 2005. Their review objective was to determine what actions DFAS should take to transform the FMFIA Program to comply with OMB Circular A-123 and its Appendix A. The review found DFAS infrastructure is not adequate to address the newly required internal control assessment methodology as required by OMB Circular A-123, revised December 21, 2004, because (1) management has not clearly identified internal and external risks;

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(2) DFAS needs to issue supplemental guidance on the revised OMB Circular A-123; and (3) no link exists between the databases related to internal control tracking, which includes high risk, FMFIA, and audit.

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## **Appendix B. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense for Acquisition, Technology, and Logistics

    Director, Acquisition Resources and Analysis

Under Secretary of Defense (Comptroller)/Chief Financial Officer

    Deputy Chief Financial Officer

    Deputy Comptroller (Program/Budget)

Director, Program Analysis and Evaluation

Director, Defense Procurement and Acquisition Policy

### **Department of the Navy**

Assistant Secretary of the Navy (Manpower and Reserve Affairs)

Naval Inspector General

Auditor General, Department of the Navy

Director, Office of Financial Operations, Assistant Secretary of the Navy, Financial Management and Comptroller

Assistant Deputy Commandant for Programs and Resources (Fiscal) United States Marine Corps

### **Other Defense Organizations**

Director, Defense Finance and Accounting Service

Chief Information Officer, Defense Finance and Accounting Service

Director, Defense Finance and Accounting Service Kansas City

### **Non-Defense Federal Organization**

Office of Management and Budget

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## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations

Senate Subcommittee on Defense, Committee on Appropriation

Senate Committee on Armed Services

Senate Committee on Homeland Security and Governmental Affairs

House Committee on Appropriations

House Subcommittee on Defense, Committee on Appropriations

House Committee on Armed Services

House Committee on Oversight and Government Reform

House Subcommittee on Government Management, Organization, and Procurement,

Committee on Oversight and Government Reform

House Subcommittee on National Security and Foreign Affairs,

Committee on Oversight and Government Reform



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# Defense Financing and Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE  
1500 E. 95<sup>TH</sup> STREET  
KANSAS CITY, MISSOURI 64197-0001

AUG 15 2007

DFAS-JB/KC

MEMORANDUM FOR PROGRAM DIRECTOR, DEFENSE FINANCIAL AUDITING  
SERVICE, DEPARTMENT OF DEFENSE INSPECTOR  
GENERAL

SUBJECT: Management Comments to DoDIG Draft Report "Defense Finance and Accounting Service Kansas City Federal Managers' Financial Integrity Act, Federal Financial Management Improvement Act, and Federal Information Security Management Act Reporting for FY 2005", Project No. D2005-D000FC-0294.000 dated July 18, 2007

Attached are management comments to Recommendations A through C of subject audit report.

Questions your staff may have concerning the audit may be directed to  
Mr. Mark L. Burnett, DFAS-KC/JB, commercial (816) 926-1208 or DSN 465-1208

for  
Don Lisenby  
Director, DFAS Kansas City

Attachments:  
As stated

The Director Defense Finance and Accounting Service Kansas City (DFAS-KC) is providing comments on Finding A as follows:

**Finding A. Adequacy of Internal Control Program**

DFAS- Kansas City did not adequately implement OMB, DoD, and DFAS guidance to comply with FMFIA requirements. Specifically, DFAS Kansas City Accounting Business Line personnel did not:

- complete required risk assessments for each functional area,
- properly identify management controls,
- determine whether all major functions were included in an assessable unit, and
- provide control testing documentation supporting the FMFIA ASA report.

FMFIA requirements were not adequately implemented because DFAS Kansas City Accounting Business Line personnel did not receive appropriate oversight and training. In addition, they were not fully aware of their reporting responsibilities. As a result, the processes did not meet FMFIA requirements, and DFAS-KC cannot ensure the reliability of its FMFIA ASA.

**Management Comments (DFAS-KC): Non-concur with the finding as written.**  
DFAS-KC understands the importance of strong internal management controls and takes its function(s) very seriously. DFAS-KC has aggressively pursued continuous improvement in our program and its functions

DFAS-KC has or is:

- Established Internal Control Unit (Aug 2006) with dedicated knowledgeable personnel that consists of three full-time personnel who are dedicated to the program and drive the local deliverables. Prior to this, the individual assigned was knowledgeable of the program, its requirements and supported those requirements.
- Self-developed internal training from the DFAS regulation and has given this training to the staff, in addition to one-on-one training to personnel on an as-needed basis.
- Requested and received on-site training from OSD(C) personnel on the program activities.

- Received a favorable Validation Report by Naval Audit Service on its Fund Balance with Treasury Assertion Package (FY 06).
- Received JFMIP certification of SABRS by independent firm (July 2005)

Risk assessments and the identification of internal controls and major functions were performed in accordance with the DFAS Regulation 5010.38-R in effect at the time the Audit was announced in September 2005. We believe the DFAS Regulation was in accordance with the OMB-A123 Guidance

Specifically,

- Risk Assessments were completed as part of the Management Control Assessable Unit Matrix Evaluation Form, documented, and signed in accordance with DFAS 5010.38-R (May 2002). The May 2002 DFAS-5010 38-R did not require risks tied to the existence, completeness, valuation, rights and obligations, and presentations and disclosure. The Regulation identified risks as "the waste, loss, unauthorized use, or misappropriation due to the nature of the functions." We believe that the (May 2002) DFAS 5010 38-R Regulation in effect at the time of audit is in agreement with the OMB A-123 Requirements for Section 2 of the FFMIA. The risk criteria cited by the IG applies to the organizations responsible for reporting Internal Controls over Financial Reporting (OMB A-123 Appendix A) not DFAS-KC. Moreover, separate risk assessment forms were not required in addition to the A/U Matrixes.
- Management controls and functions were identified IAW (May 2002) DFAS 5010.38-R

Controls. Our review of Assessable Unit Matrixes for FY 2005 and FY 2006 found that 83% and 97% respectively did not use Performance Management Indicators (PMI's) as Key Controls. PMI's were identified in addition to other controls in those Assessable Units noted by the I.G.

- Assessable Unit Functions. Per the regulation, managers were responsible for making assessments as to if all of their major functions were included in the respective assessable units. Flowcharts were not required by the (May 2002) DFAS 5010.38-R. We do agree the local SOP did require flowcharts, but it was not being followed
- DFAS-KC agrees that retained test documentation could not be provided by all areas, but this does not support that the documentation for FY 2005 and 2006 taken as a whole do not support the FY 2005 and 2006 Annual Statements of Assurance. This does not support that control testing was not done, but rather that documentation was not available. DFAS-KC received positive feedback on its FBWT processes from the NAVAUDSVC in 2006. In addition, SABRS JFMIP

Certification by an independent firm in July 2005 required extensive testing and validation.

**Summary:**

DFAS-KC does not agree that the processes reviewed did not provide adequate information to ensure accurate reporting for compliance with the 2005 and 2006 Annual Statements of Assurance. DFAS-KC sought, on its own initiative, to improve and strengthen the Internal Management Control Program in addition to implementing a new Internal Control Unit in August 2006 to improve the Section 2 Reporting.

DFAS-KC does not agree that its internal controls processes could not identify risks and design or institute controls to minimize risk, but does agree that reporting and documentation could have been improved.

**Recommendation A1:** Provide training to DFAS-KC Personnel to ensure compliance OMB and DFAS Policies. Specifically, the training should cover:

- a. adequate risk assessments,
- b. the associated internal controls to ensure reliability,
- c. measurable assessable units, and
- d. procedures for maintaining control testing documentation.

**Management Comments:** **Non-Concur.** As stated in our response to the conditions above, DFAS-KC did recognize the need for training and conducted local training in April and September 2006. DFAS-KC upgraded its program by establishing the new Internal Control Unit (Aug 2006) with 3 FTE's assigned and the resulting one-on-one training with managers.

**Recommendation A2:** Designate knowledgeable personnel to lead and monitor the DFAS-KC M/C Program.

**Management Comments:** **Non-Concur.** DFAS-KC has had, and continues to have, knowledgeable personnel to lead and monitor its Management Control program. As stated in our response to the condition, DFAS-KC established a three-person Management Control Team in August of 2006 to provide additional support and capabilities.

**Recommendation A3:** Coordinate with DFAS-CL to ensure DFAS-KC's Management Control Program effectively transfers financial functions as a result of DOD BRAC.

**Management Comments:** **Non-Concur.** The transfer of the Management Control Program to DFAS-CL is included in the DFAS-KC BRAC Closing Plan (Aug 2006).

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DFAS-KC has coordinated, and will continue to coordinate with DFAS-Cleveland. This is accomplished on an on-going basis. This recommendation is out of scope for the timeframe of the audit.

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**Finding B and C are redirected to DFAS Chief Information Office as Action Office for DFAS.**

The Chief Information Officer, Defense Finance and Accounting Service (DFAS-CIO) is providing comments on Finding B and C as follows:

**Finding B. Financial Management System Controls Reporting**

DFAS headquarters and DFAS Kansas City did not comply with the reporting requirements of FFMIA or FMFIA Section 4. They did not comply with reporting requirements because they relied on DoD to report financial management system weaknesses at the Department level. In addition, they relied on DoD to submit a remediation plan at the Department level for DoD-wide material weaknesses. As a result, DFAS Kansas City did not ensure that USMC financial management systems: were US Standard General Ledger compliant; could provide accurate and timely information for decision-makers, and could produce consistent and reliable financial statements.

**Management Comments (DFAS-CIO): Non-concur.** In compliance with the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) guidelines, DFAS did not conduct FMFIA process and system compliance testing in FY05 and FY06. In FY07, and in compliance with the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) guidelines, DFAS conducted systems testing and found no material weaknesses that would adversely affect a reporting entities financial position at any point in time. As documented in its FY07 FMFIA ASA Section 4 report, DFAS has made significant progress in ensuring FMFIA compliance. DFAS did not find any material weakness as a result of process reviews and testing and as such does not have any material weaknesses to report for Kansas City financial management processes or systems. If DFAS had identified material weaknesses during its financial management reviews the weaknesses would be reported in the Agency's FMFIA Section 4 report

**Recommendation B1:** Report the financial management systems material weaknesses in the FFMIA report and FMFIA ASA Section 4, if applicable, after implementing recommendations from finding A.

**Management Comments: Non-concur.** DFAS does not have any material weakness to be reported in FFMIA or FMFIA ASA, Section 4. In accordance with OUSD(C) guidelines for the FY07 FMFIA ASA Section 4 reporting requirement, DFAS documented its financial business processes by customer. In accordance with OUSD(C) guidelines, it developed system test scripts and conducted systems tests for those systems that contributed more than 85 percent of the financial transaction data on a given line of our customers' financial statements including those systems supporting the Marine Corps and found no material weaknesses. In addition, DFAS has established an FFMIA Working Group and is moving-forward with development of an FFMIA implementation plan in close cooperation with DFAS Strategic Business Management (SBM) and our DFAS customers.

DFAS is exercising deliberate caution to be prudent in its approach to minimize expenditures for systems testing in response to Administration and congressional concerns of wasteful or excessive spending on systems that are not planned to be retained as part of the Department's system strategy led by the Business Transformation Agency or in cases where a reporting entity is not ready for a financial audit.

We do agree there was a lack of communications on what should have been reported in the FMFIA Report (Section 4). However, there were no clear guidance/requirements for the FMFIA ASA, Section 4 submission in FY05 or FY06. In fact, it was our understanding that the FMFIA submission was not to be submitted during the period. Based on this understanding, DFAS did not submit any information for the FMFIA ASA Section 4. However, as demonstrated in our FY07 FMFIA ASA Section 4 report, DFAS has developed a more systematic, repeatable, and standard method for collecting and evaluating system compliance across the enterprise that mitigates future issues.

We recommend that additional issues related to FY05 and FY06 FMFIA ASA, Section 4 reporting requirements be referred to the OUSD (C) as DFAS was in compliance with established reporting requirements and the Department's intent to address these at the Department level.

**Recommendation B2:** Develop a remediation plan for identified financial management system material weaknesses. If the DoD Financial Improvement and Audit Readiness Plan is used as the remediation plan, ensure that DFAS Kansas City remediation actions are included in the plan.

**Management Comments: Non-concur.** DFAS does not have a requirement to develop a remediation plan as there are no identified financial management system material weaknesses requiring such a plan

Redirected  
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### **Finding C. FISMA Reporting**

DFAS headquarters submitted an incomplete FISMA Report. Specifically, DFAS Headquarters did not:

- use a complete list of systems,
- request network and training information from all DFAS sites, and
- maintain supporting documentation for the information submitted in the FISMA Report

**Management Comments (DFAS-CIO): Concur in part.** The finding addresses the way that the data was collected and reported rather than what is contained in the report. The IG report questions the DFAS methodology for collecting data to be reported rather than the data itself.

**Use a complete list of systems. Non-concur.** DFAS has always had a complete list of major systems as required by FISMA and DoD guidelines. DFAS collected systems and network related information from System and Functional Managers rather than by site. In FY05 when the audit was conducted, the systems were under a Business Lines chain of command rather than a site chain of command. The Kansas City Site Director was not responsible for providing systems documentation for FISMA reporting. However, KC systems documentation for those systems supporting the MC was collected from the appropriate system management (SM) staff or from the network staff as appropriate and included in the Agency FISMA report. The methodology for collecting and reporting has been and is consistent. All SMs and functional managers used the DoD-prescribed reporting guidelines and formats and the data was validated by DFAS HQ. In FY06 and FY07 when the systems were moved under the Director for Information and Technology (I&T), the same approach was used, but in this case the SMs and functional managers were under the Director, I&T chain of command so management and reporting were more efficient.

**Request network and training information from all DFAS sites. Non-concur.** DFAS did not use the Central Site Directors to collect training information, rather it used its network of trusted site IAMs to collect and report IA training data from all DFAS sites. This is the same group that is responsible for PKI and other security issues and who have been responsible for ensuring completion of IA training to the DFAS network. As a corollary, the DFAS system and network data was collected from SMs and Functional Managers as described above. This methodology has been consistently applied and is the most efficient way to collect data. The same methodology and approach was used in FY06 and again in FY07. The major difference in these cases was that the systems were all consolidated under the Director, Information and technology in FY06 so the reporting chain was through the Director, I&T so the management of the data and the reporting

flowed up the same chain instead of having to go through the DFAS Business Lines. This improved process reviews and reporting. In the case of training data, this is centrally managed and reported through the Director I&T. In FY06, to improve data collection and reporting, an Agency portal project was established as a repository for training certificates to ensure validation of training in advance of report submission. This was improved in FY07 with the establishment of an automated link between the IA training and the Agency's Human Resources Training History file which is bumped against the Agency's time and attendance file to track training completion for all civilian employees, military service members and contractors.

**DFAS Headquarters did not maintain supporting documentation for the information submitted in the FISMA Report. Non-concur.** In FY05, as documented above, DFAS HQ used its IAM network to train and report results vice Site Directors or Business Line managers. This approach provided an efficient means of delivering the training to all of Business Line and Oversight organizations operating at the DFAS locations. While this approach was operational efficient, the reports still had to be consolidated and reported by DFAS Headquarters. This has since been streamlined and strengthened. Beginning in FY06, the Agency training was provided and managed centrally as part of the Agency SPIRIT Training and the certification of completion is posted to the HR Training History file for record. While this history is retained in the personnel's training history and is not overwritten annually with the completion of the next year's training, DFAS non-concurs with the requirement to retain the record for a minimum of two years. IA Awareness Training is an annual certification and all civilian employees, military service members and contractors are required to be recertified every year, so the retention of the record longer than one year is unnecessary.

**Recommendation C:** We recommend DFAS Headquarters document and implement standard operating procedures for the FISMA reporting process. These standard operating procedures should include a consistent method for collecting information from the DFAS sites as well as provide a specific amount of time, a minimum of 2 years, for maintaining supporting documentation

Clarified,  
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**Management Comments:** Non-concur. DFAS uses the prescribed DoD policy and procedures and only augments them as necessary to ensure accurate and reliable reporting. To that end, DFAS has standard operating procedure to ensure compliance with and accurate reporting in accordance with FISMA policies and procedures that are in compliance with statutory and regulatory guidelines. As a matter of fact, the Agency's revised CIO policies published in FY07 mandate compliance with FISMA, FFMIA and FMFIA and direct that all DFAS information systems will comply with established standards.

As an independent reference point, DFAS received an "A" for Certification and Accreditations (C&As) and Security Metrics in a Published Briefing Report (FISMA Reporting Metrics), dated 18 Oct 2006. However, we are constantly evaluating alternatives to improve upon our existing processes and procedures, and apply any

lessons learned across the enterprise as evidenced by our improved processes for systems assessments and the management and collection of training certifications

**Summary:**

DFAS Headquarters does not agree with the DoDIG findings or recommendations. The processes in place did provide an efficient means for providing training and collecting information to ensure accurate reporting for compliance with the 2005 and 2006 FISMA requirements. DFAS has continually strived to satisfy statutory and regulatory requirements and to improve and strengthen every aspect of the Internal Management Control Program.

The DFAS Point of Contact for Finding A is Mark Burnett, DFAS-KC/JB; (816) 926-1208; and DFAS Point of Contact for Findings B and C is Norman Noe, DFAS-IN/EOT/YB/HTO; (317) 510-5864.

## **Team Members**

The Department of Defense Office of the Deputy Inspector General for Auditing, Defense Financial Auditing Service prepared this report. Personnel of the Department of Defense Office of Inspector General who contributed to the report are listed below.

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# Inspector General Department *of* Defense

